



**Central
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**Thursday
10 September 1987**

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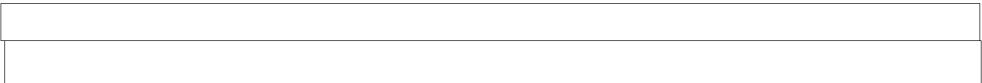
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PERSIAN GULF:**Situation Report**

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The Gulf States' Views

The United Arab Emirates has issued an uncharacteristically strong official condemnation of Iran's Silkworm attacks on Kuwait last week. This follows condemnations by two other Gulf Cooperation Council states—Saudi Arabia and Bahrain. Meanwhile, an Arab League delegation, including the Iraqi and Kuwaiti Foreign Ministers, is visiting Moscow to press for rapid implementation of UN Security Council Resolution 598 and followup sanctions against Iran, according to press reports. [redacted]

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Comment: The Gulf Council Foreign Ministers will probably discuss the Iranian attacks when they meet in emergency session ~~Saturday~~. They are not likely to issue a joint condemnation because Oman would oppose such a statement. Baghdad probably hopes the timing and intensity of the attacks will strengthen efforts of the Arab League delegation now visiting Moscow to alter what they see as Moscow's tilt toward Iran and its stalling tactics in implementing UN sanctions. Recent Iraqi and Kuwaiti press criticism of Soviet equivocation on UN Resolution 598 suggests the Arab League delegation is pressing Moscow on this issue. Iraq may also hope that linking the attacks to a retaliation on Kuwait's behalf will embarrass the Soviets, who enjoy closer relations with Kuwait than with any other smaller Gulf state. [redacted]

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Moscow's Perspective

Moscow has characterized its reception of both Arab League and Iranian officials this week as efforts to urge compliance with Resolution 598. TASS reports that Iranian Deputy Foreign Minister

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Larijani's two days of talks with Soviet officials, including Foreign Minister Shevardnadze, focused on the Iran-Iraq war and bilateral relations. 

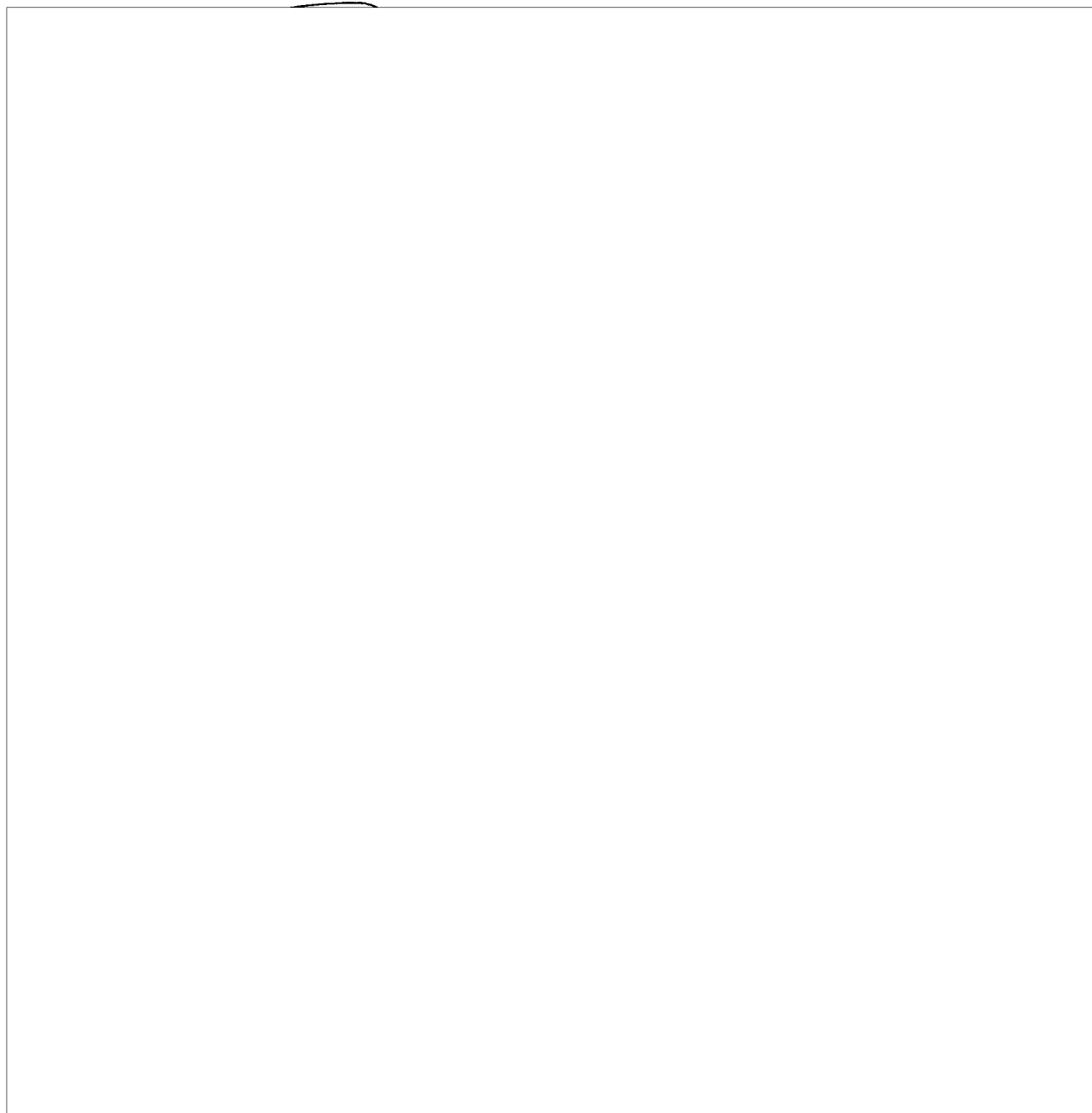
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Comment: Moscow continues to cultivate both the Arabs and the Iranians and does not want to be forced into actions—such as a sanctions resolution—that might damage relations with either party.



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PLO-LIBYA:

Improving Relations

Radical Palestinian groups based in Syria and Libya are being drawn increasingly to the PLO by a convergence of interests.

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Several PLO emissaries have visited Tripoli during the past two months for talks with Libyan leader Qadhafi. The negotiations have led to an agreement to reopen the PLO office in Tripoli and to provide military training facilities in Libya for the PLO.

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~~The US Embassies in Damascus and Amman report that Qadhafi is trying to arrange the reunification of the Damascus-based groups of the Palestine National Salvation Front with the Arafat-led PLO. US Embassy sources say that Qadhafi paid large sums of money to the Syrian-backed groups to meet with PLO representatives in Tripoli early this month.~~

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Comment: Qadhafi has long supported the goal of Palestinian unity to strengthen the armed struggle against Israel, and he probably sees the prospect of PLO military assistance as an added bonus. Arafat's desire to improve relations probably is prompted by continuing PLO financial difficulties and poor relations with other Arab countries since the Palestine National Council last April. He probably views his agreement to discuss PLO reunification ~~and to send military personnel to Libya~~ as a minimal concession.

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Radical Palestinian leaders in Damascus are under increasing criticism from their followers because of their dependence on Syria in the face of continuing Syrian-Amal pressures on Palestinian refugee camps in Lebanon. They probably hope the Libyan-sponsored reunification talks will help to minimize their association with Syria's policies in Lebanon.

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YUGOSLAVIA-PLO: Visits by Palestinian Leaders

Recent reported visits to Yugoslavia by several prominent Palestinians, including known terrorists, reflect Belgrade's willingness to support Palestinian groups despite US pressure to turn terrorists away.

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Comment: Belgrade has reduced official contacts with terrorists but probably will continue to risk US displeasure by providing safehaven to selected Palestinian terrorists and ignoring their transits. Yugoslavia believes such support ensures good relations with Middle Eastern trading partners, prestige in the Nonaligned Movement, and insurance against terrorist reprisals.

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The arrival of several prominent Palestinians in Yugoslavia within a few weeks is unusual; it may reflect an effort by Belgrade to facilitate negotiations among Palestinian factions. Its involvement with Palestinians, however, risks embroiling Yugoslavia further with unwanted terrorists.

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Belgrade almost certainly knows of the presence of key terrorists, but its ability to monitor transits of lesser known figures is constrained by Yugoslavia's relatively open borders and large Middle Eastern tourist and student populations. It is likely to continue to test the limits of US tolerance for its contacts with terrorists.

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PHILIPPINES: Cabinet Resignations

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President Aquino has yet to accept any of the Cabinet resignations submitted to her yesterday. The US Embassy reports that Aquino is expected to dismiss Executive Secretary Joker Arroyo, whose ouster was sought by leaders of the coup attempt last month.

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Comment: A Cabinet shuffle that addresses some of the tensions behind the coup attempt might help Aquino regain political momentum. Arroyo's leftist views, his autocratic behavior, and his incompetence have antagonized the military and many of Aquino's supporters since she came to power. His inaction during the coup attempt and defiance before a congressional committee investigating the affair may lead to his undoing. Aquino possibly will also accept the resignations of Presidential Counsel Teodoro Locsin, who has been feuding with the military over its handling of the coup attempt; Finance Secretary Jaime Ongpin, who has been attacked by the Philippine Congress for negotiating Manila's onerous debt rescheduling; and Defense Secretary Ilto. She probably will take some time to make up her mind about resignations and replacements; a similar shakeup last November dragged on for three weeks.

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CHINA: Grain Policy Proposal

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A recent editorial in a proreform Chinese newspaper proposed complete deregulation of grain prices, reflecting efforts by reformers to get party endorsement for the commercialization of agriculture. The editorial claims that a free price mechanism would spur needed grain production—unlike the lower-than-market prices the state now pays. The article says that, in addition to releasing the government from the expense of overseeing the grain market, deregulation would increase private investment in agriculture's deteriorating infrastructure.

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Comment: The proposal is far reaching and may be an early sign that some expansion of market forces in agriculture will be announced at the party congress next month. To avoid aggravating worker displeasure with inflation—an issue that recently prompted a price freeze on consumer goods—Beijing would initially have to moderate the effects of higher grain prices by boosting its subsidies to urban consumers. Conservatives would attack such a drain on the budget—which ran a \$2 billion deficit last year—but reformers will probably counter that higher grain output will lower prices, helping consumers, reducing imports, and thereby offsetting the short-term costs.

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BANGLADESH: Ershad's Problems Deepen

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Army discontent and opposition agitation in Bangladesh are posing increasingly serious threats to President Ershad. The opposition parties rejected his call for a national dialogue and are planning a mass antigovernment demonstration in Dhaka on 7 October.

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Ershad is considering a state of national emergency as a means to turn the government over to the military without bloodshed. Ershad has a plane and pilot ready to fly him out of the country.

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Comment: The disgruntled Army officers, who are weary of Ershad's corruption and inability to create a stable political order, probably want him out by 7 October in order to avert the planned demonstrations. The President is likely to continue his efforts to cut a deal with the opposition—such as promising new elections—but his rigging of past elections makes such an agreement improbable. These continuing political machinations are almost certainly taking a toll on Ershad, and he may be casting about for a safe exit. With his growing array of problems, there is a likelihood that Ershad will be out of power by the end of this year.

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In Brief25X1
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- **Soviet** consular delegation to leave **Israel** next month, [redacted] 25X1, 25X1
[redacted] ... Israelis discouraged by lack of substantive discussion ... no indication officials will return, but working-level contacts to continue. [redacted] X 25X1
- Secretary General of **Israeli** Labor Party has said Labor will not renew bid for early national election ... endorsed scheduled November 1988 date ... suggests Labor recognizes it lacks legislative majority for early ballot. [redacted] X 25X1
- **EC** to issue declaration criticizing **Israel's** West Bank settlement policy, according to US Embassy reporting ... not likely to delay start of 2,000-unit Jewish settlement ... Tel Aviv will probably oppose direct trade between EC, occupied territories. [redacted] X 25X1
- **Syria** has convicted 70, some from influential families, of corruption, smuggling ... harsh sentences, including death, well publicized, reportedly approved by President Assad ... may presage unpopular austerity measures. [redacted] X 25X1
- **Sudanese** Prime Minister Sadiq has announced two-week delay likely in naming new coalition government ... his Umma Party's talks with Democratic Unionists hampered by disputes over cabinet posts, other spoils of office. [redacted] 25X1 25X1

Oceania

- Miners in **Australia's** major coal-producing region began strike yesterday over planned layoffs ... national strike imminent ... threatens coal export earnings nearly \$228 million each week. [redacted] X 25X1

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Americas

Venezuelan President Lusinchi this week approved signing agreement with foreign banks to reschedule \$21 billion in public debt . . . ends months of cabinet wrangling . . . opposition claims Caracas bowing to demands of international creditors.

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Thailand has received with fanfare first of ~~\$10 million~~ order of **Chinese** weapons . . . press reports 100 APCs, antiaircraft guns delivered . . . cut rate contract includes additional 300 APCs, 30 tanks.

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Vietnam to withdraw 20,000 troops from **Cambodia** in October or November, according to ~~unconfirmed~~ press . . . will for first time invite foreign officials to observe departures . . . Hanoi hoping to stimulate movement toward negotiations.

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Europe

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— **Portugal** hinting at midterm review of Lajes basing agreement early next year . . . frustrated by declining US security assistance, delay in confirming US Ambassador . . . comes at delicate time of unresolved base talks with **Spain, Greece, Turkey**.

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Special Analysis**MEXICO:****Domestic Economic Problems**

The turnaround in Mexico's balance of payments has been impressive, but domestic economic problems still beset President de la Madrid's administration. Mexico City probably will not be able to stimulate growth without sharply increasing prices. [redacted]

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Strong export performance and a low import bill fueled a record \$5 billion trade surplus over the first six months of this year. Foreign exchange reserves are at a record \$15 billion, [redacted]

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[redacted] Optimism over the country's external position is offset, however, by concern about domestic economic problems. [redacted]

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Despite fiscal and monetary restraint and de la Madrid's commitment to hold the line on wage increases, inflation is increasing at record levels and probably poses the most serious challenge to a sustained recovery. High interest payments on domestic public-sector debt—nearly half of government expenditures—and the failure of Mexico's new tax program to generate additional revenues are likely to push the federal deficit well above original IMF targets of 13 percent of GDP, even though government spending is lower now than at this time last year. [redacted]

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Costly Trade-Offs for Growth

In anticipation of the presidential election next July, Mexico City already is moving to stimulate the economy. The government is allowing the peso to gain value relative to the dollar and last month announced trade-liberalizing measures. Both moves will slow inflation and boost growth, but they also will erode the current account surplus and are adamantly opposed by the ruling party's business supporters, many of whom cannot compete with more efficient foreign producers. Similarly, recent decreases in domestic interest rates will help lower inflation and the deficit while stimulating economic activity, but they risk re-igniting capital flight. [redacted]

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Additional measures Mexico City is likely to adopt in the coming months will be costly, as well. For example, foreign exchange reserves may be used to finance labor-intensive public works projects—which would fuel inflation, as would wage increases to placate labor. [redacted]

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De la Madrid's cabinet is divided over which economic policies should be given precedence, [REDACTED]. Although the President exercises final control over policy, Budget Minister Salinas, one of three front-runners to become the next president, remains at the economic helm and is giving growth top priority, albeit cautiously. His efforts [REDACTED]

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[REDACTED]—have been slow to produce results, however, and his presidential aspirations may prompt him to push harder to expedite politically popular expansionary efforts. [REDACTED]

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[REDACTED] Salinas is prepared to accept high inflation in return for growth. [REDACTED]

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Outlook

Record levels of inflation and a large budget deficit are probably forerunners of deeper troubles as the economic reins are loosened. If Salinas has his way, his economic program is likely to produce real growth of 2 to 4 percent and inflation of about 150 percent over the next 18 months. In that case, de la Madrid's successor might be forced to implement a program of wage and price controls to break the inflationary spiral in 1989. [REDACTED]

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De la Madrid seems content for now to allow Salinas to proceed with his economic program. Public disgruntlement over uncontrolled inflation, however, could signal the political demise of the Budget Minister and would probably force de la Madrid to deal with inflation before leaving office. [REDACTED]

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Exploiting Antibase and Antinuclear Sentiment in the Philippines

Moscow is using many tools of its active measures apparatus to push hard for the removal of US bases from the Philippines—though with limited influence to date.

Disinformation: The TASS correspondent in Manila reported in November 1986 that the Philippine Ministry of Public Health was seriously concerned about the spread of AIDS in the Philippines, citing US military personnel at Subic Bay and Clark Field as the carriers of the virus.

Communist Parties: The small pro-Soviet Philippine Communist Party has organized demonstrations against US facilities, spread antibase propaganda, and worked with local labor and peace groups to generate broader opposition to the US military presence. In the last year, the Soviets have also expanded ties to the larger, Maoist-oriented Communist Party of the Philippines.

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Soviet-Controlled Fronts: The Soviets have used the World Federation of Trade Unions to exploit antinuclear sentiment in the Philippine labor movement. Moscow was probably pleased that the traditionally anti-Soviet May First Movement labor organization—a vocal opponent of the US bases that the Soviets have been courting—participated last month in a conference in Manila of WFTU's regional affiliate, the Asian Oceania Trade Union Coordinating Committee.

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Friendship Societies: The Soviets routinely foot most of the bill for propaganda activities against the US bases by the USSR-Philippines Friendship Society chapter at the University of the Philippines,

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Special Analysis

USSR:**Campaign Against US Foreign Bases**

A Soviet propaganda and active measures campaign to create opposition to the US military presence overseas has gained new momentum as basing agreements in Greece, the Philippines, Spain, and elsewhere come under review and as movements advocating nuclear-free zones spread. Soviet efforts to create more vigorous and organized opposition to US facilities are likely to be most effective in Greece and the Philippines.

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Soviet disinformation has used several themes. One that surfaces frequently exaggerates the role of US military personnel in the spread of AIDS in the Philippines, Japan, South Korea, Western Europe, Pakistan, and Honduras—Moscow has also fanned allegations that the US is attempting to destabilize Third World countries in order to acquire new bases. In March, for example, the *Patriot*, an Indian newspaper reportedly established by the KGB, carried an article accusing the US of fomenting communal unrest among Tamil populations in India and Sri Lanka in order to create an independent Tamil state that would give the US access to base facilities at Trincomalee on the Bay of Bengal.

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Local Communists and their fronts, such as labor and peace groups, often spearhead the Soviet attack against US foreign bases. Small pro-Soviet Communist parties in Greece, Spain, and the Philippines have been active in organizing antibase activities.

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Moscow has also directed its international front groups to focus on US bases. The Philippine World Peace Council affiliate, for example, reportedly took part recently in a planning conference in Moscow dealing with antibase and antinuclear subjects.

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Large and politically significant antinuclear movements exist in most of Western Europe and in parts of Asia. Moscow will undoubtedly continue to play upon the nuclear theme, emphasizing the potential for nuclear accidents and portraying countries that host US facilities as targets in a nuclear confrontation. This approach is likely to have varying degrees of success; in Greece, for example, the basing issue has traditionally been distinct from antinuclear sentiment.

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Past Soviet campaigns against the neutron bomb and intermediate-range nuclear forces suggest that Moscow's efforts can make the difference between an opposition that is unfocused and unorganized and a cohesive political movement.

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